

December 8, 2011

**Los Angeles County
Board of Supervisors**

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First District

Mark Ridley-Thomas
Second District

Zev Yaroslavsky
Third District

Don Knabe
Fourth District

Michael D. Antonovich
Fifth District

Mitchell H. Katz, M.D.
Director

Hal F. Yee, Jr., M.D., Ph.D.
Chief Medical Officer

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Chief Deputy Director

313 N. Figueroa Street, Suite 912
Los Angeles, CA 90012

Tel: (213)240-8101
Fax: (213) 481-0503

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To ensure access to high-quality, patient-centered, cost-effective health care to Los Angeles County residents through direct services at DHS facilities and through collaboration with community and university partners.



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TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Don Knabe
Supervisor Zev Yaroslavsky

FROM: Mitchell H. Katz, M.D.
Director



**SUBJECT: NOTIFICATION OF USE OF DELEGATED AUTHORITY
TO EXECUTE AMENDMENT TO PLAN PARTNER
SERVICES AGREEMENT WITH L.A. CARE HEALTH
PLAN (LOCAL INITIATIVE)**

This is to advise your Board that the Department of Health Services (DHS) is exercising its delegated authority, approved by your Board on December 18, 2007 (attached) to execute an Amendment to the Community Health Plan's (CHP) Plan Partner Services Agreement with LA Care Health Plan (LA Care/Local Initiative).

DHS has executed Amendment No. 2, effective November 16, 2011, to include CHP revised Plan Rates/Capitation Payments through September 30, 2011. This Amendment also included Incentive Programs, which provide for additional payments to CHP; and other changes in contract provisions.

County Counsel participated in the negotiation process, reviewed the Amendment and has approved it to form. The Chief Executive Office has approved the Amendment.

If you have any questions or require additional information, please let me know.

MHK:JFS:ln

Attachment

c: Chief Executive Office
County Counsel
Executive Office, Board of Supervisors



WILLIAM T FUJIOKA
Chief Executive Officer

County of Los Angeles **CHIEF EXECUTIVE OFFICE**

713 KENNETH HAHN HALL OF ADMINISTRATION
LOS ANGELES, CALIFORNIA 90012
(213) 974-1101
<http://ceo.lacounty.gov>

December 18, 2007

The Honorable Board of Supervisors
County of Los Angeles
383 Kenneth Hahn Hall of Administration
500 West Temple Street
Los Angeles, CA 90012

Dear Supervisors:

**DEPARTMENT OF HEALTH SERVICES: COMMUNITY HEALTH PLAN-LOCAL
INITIATIVE AGREEMENT/OTHER RELATED SERVICE AGREEMENTS
AND APPROVAL OF AMENDMENT NO. 2 OF AGREEMENT NO. H-213078
WITH CARE 1ST HEALTH PLAN
(ALL SUPERVISORIAL DISTRICTS)
(3 VOTES)**

IT IS RECOMMENDED THAT YOUR BOARD:

1. Delegate authority to the Director of Health Services (Director), or his designee, to extend and amend Agreement No. H-207980 with L.A. Care Health Plan (L.A. Care) effective January 1, 2008, on a month to month basis not to exceed six months, up to June 30, 2008, contingent upon prior review and approval by County Counsel and the Chief Executive Office (CEO), and written notification to the Board within 30 days of full execution of the Amendment.
2. Delegate authority to the Director, or his designee, to extend previous delegated Board authority granted on June 19, 2007 to negotiate and execute a Replacement Agreement with L.A. Care during the extension term, and execute future Amendment(s) to the Replacement Agreement, contingent upon prior review and approval by County Counsel and the CEO, and written notification to the Board within 30 days of full execution of the Replacement Agreement and Amendment(s).

Board of Supervisors
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First District

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Fifth District

3. Delegate authority to the Director, or his designee, to: a) offer and execute new i) Fee-for-Service Hospital Agreements and ii) direct Service Agreements with Individual Primary Care Physicians and Specialists, Ancillary Providers, and other service providers under reimbursement methodology determined by Community Health Plan (CHP) for any or all of its product lines, provided that such Agreements will expand CHP's provider network, increase capacity or access to care to its Members, enhance CHP's ability to grow market share, and develop new product lines, and that such providers meet the CHP's contracting criteria listed in Attachment B; and b) execute future Amendments to these Agreements, subject to availability of each respective funding source, contingent upon prior review and approval by County Counsel and the CEO, with written notification to the Board within 30 days of execution of the new Agreements and Amendments.
4. Approve and instruct the Director, or his designee, to execute Amendment No. 2 to Agreement No. H-213078, substantially similar to Exhibit I, with Care 1st Health Plan (Care 1st) for the continued provision of hospital and professional inpatient and outpatient services to Care 1st Medi-Cal and Healthy Families Members by Department of Health Services (DHS or Department) facilities, effective January 1, 2008 up to December 31, 2008, contingent upon prior review and approval by County Counsel and the CEO, and written mutual agreement by both parties.
5. Delegate authority to the Director, or his designee, to execute a Replacement Agreement with Care 1st effective the first day of the month following the date of successful contract negotiations by both parties, through September 2009, with automatic annual renewals for three years through September 2012, contingent upon prior review and approval by County Counsel and the CEO, and written mutual agreement by both parties.

PURPOSE/JUSTIFICATION OF RECOMMENDED ACTIONS

DHS is recommending approval of these actions to: a) ensure continued funding and provision of health services to Medi-Cal beneficiaries enrolled in CHP; b) enable and support CHP in its goal of expanding its provider network, increasing capacity or access to care for all its Members, and enhancing CHP's ability to increase market share and develop new product lines; and c) ensure the continued provision of health care services by DHS facilities at fee-for-service rates to Care 1st Medi-Cal and Healthy Families Members while meeting the County's Strategic Plan Goals of Fiscal Responsibility and Organizational Effectiveness by increasing utilization of DHS facilities and thereby increasing revenue to DHS.

FISCAL IMPACT/FINANCING

L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program

CHP receives a per member per month capitated rate from L.A. Care for each Medi-Cal beneficiary enrolled in the CHP. These rates are confidential in accordance with Section 1457 of the California Health and Safety Code, and have been shared with each Board Office, the CEO, and County Counsel.

New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines

The total fiscal impact of this recommended action cannot be determined at this time, because calculations will depend on the future number of new contracts, member assignments, and reimbursement rates. The funding for new agreements falling under the following CHP product lines is as follows:

Medi-Cal Managed Care Program – 100 percent offset by capitation payments received from L.A. Care on a per member per month basis for each Medi-Cal beneficiary enrolled in CHP.

Healthy Families Program (HFP) – 100 percent offset by State and Federal funds received from the State's Managed Risk Medical Insurance Board on a capitated basis for each CHP HFP subscriber.

In-Home Supportive Services Program - partially offset by State and Federal funds, with remaining costs covered by net County cost, under the terms of the Personal Assistance Services Council-Services Employees International Union (PASC-SEIU) Homecare Workers Health Care Program.

Care 1st Health Plan – Medi-Cal and Healthy Families Program

DHS receives reimbursement at fee-for-service rates from Care 1st. These rates are on file with DHS and kept confidential in accordance with Health and Safety Code Section 1457.

The amount of revenue DHS will generate from this Agreement cannot be determined at this time because it depends on the number of Care 1st patients that will actually be served by DHS facilities. During Fiscal Year 2006-07, DHS facilities collected approximately \$2.5 million.

FACTS AND PROVISIONS/LEGAL REQUIREMENTS

Community Health Plan

The CHP is a full-service State-licensed and federally-qualified Health Maintenance Organization (HMO) publicly operated by the County of Los Angeles and administered by the Department's Office of Managed Care. CHP's core business is the provision of health care to eligible members enrolled under CHP's Medi-Cal Managed Care Program, HFP, and PASC-SEIU Homecare Worker Health Care Plan.

L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program

On February 11, 1997, the Board approved the Local Initiative Agreement / Medi-Cal Agreement with L.A. Care. On subsequent occasions, the Board approved a Replacement Agreement effective December 2002 and Amendments through December 31, 2007.

Negotiations with L.A. Care for a new Replacement Agreement are ongoing. The Department is seeking authorization to extend the existing Agreement No. H-207980 effective January 1, 2008, on a month-to-month basis not to exceed six months, up to June 30, 2008, to allow both parties to complete their negotiations and execute the Replacement Agreement, which shall be effective the first day of the month following the date of successful contract negotiations by both parties, up to March 31, 2009. The Replacement Agreement will align the term of the Agreement with other L.A. Care Plan Partner Services Agreements, including Blue Cross, Care 1st, and Kaiser Permanente. As with the existing Agreement, the new Replacement Agreement will comply with all applicable State laws and regulations.

New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines

CHP's customary method of reimbursement for contracted health care services is based on capitation, an amount paid to a physician group or hospital on a certain fixed rate per member per month, whereby such rates are actuarially sound based on utilization and cost data. The main advantage of a capitation agreement is that providers have no incentive to provide more services than are medically necessary. The fee is paid whether or not services are rendered, and it provides a consistent source of revenue for the providers and enables CHP to control the rising costs of health care.

In recent years, however, hospitals have started pushing back on capitation agreements and risk sharing arrangements negotiated with physician organizations as costs of providing health care services have risen and legal and regulatory requirements have tightened. Consequently, many health plans have now converted their hospital agreements from capitation to discounted fee-for-service or per diem arrangements. As a result, certain current CHP capitated contracted hospitals will not renew their existing agreements with CHP and are now requiring a shift from the capitation agreement to a fee-for-service agreement. The new fee-for-service agreements will also be offered to potential hospital providers who are critical to maintaining or expanding CHP's network and increasing capacity or access to care by all of CHP's Members. It is incumbent upon CHP to control utilization through authorizations and concurrent review.

In addition, CHP currently only contracts with Medical Groups or Independent Practice Associations, groups of physicians organized as a legal entity to deliver or arrange for the delivery of health services to CHP Members. While such contracting mechanisms have allowed CHP to maintain its current provider network, rapid changes in the HMO industry in response to competitive pressure has limited CHP's ability to strengthen its market position. As part of CHP's goal to expand its provider network, thereby increasing competitiveness and improving efficiency in meeting immediate market needs and delivering effective health care services to Members, the Department recommends direct contracting with Independent Primary Care Physicians and Specialists, ancillary providers, and other service providers, e.g. Skilled Nursing Facilities, Home Health agencies, Hospitalists, etc.

Under both instances, the CHP will determine the reasonable reimbursement rates and methodology to use in negotiating each contract by evaluating current and historical utilization data, financial responsibility matrix, the surrounding market, current industry standard, and available compilation of research data by health industry, other health plans, hospitals, health systems, individual physicians and physician organizations, and other notable research data engines, subject to review and approval by County Counsel and the Chief Executive Office.

Under the recommended action, the Department will use delegated authority to execute such new Agreements and Amendments, subject to availability of each respective funding source. The new Agreements will contain termination provisions by which either party at any time and for any reason may terminate the Agreement by giving at least 90 calendar days prior written notice, and shall contain preferred County contractual language that is in the CHP's current standard agreements, subject to final review and approval by County Counsel and the CEO.

Care 1st Health Plan

On October 2, 2001, the Board approved Agreement No. H-213078 with Care 1st, effective upon Board approval and continued, thereafter, with automatic renewals through June 30, 2007. On June 12, 2007, the Board approved Amendment No. 1 extending the term of the Agreement through December 31, 2007.

Amendment No. 2 to the Agreement will allow access by Care 1st Medi-Cal and Healthy Families Members to DHS facilities for primary, specialty, inpatient, and emergency care. Such care provided is subject to County Code Section 2.76.130, Priority of Admissions.

DHS and Care 1st are continuing to negotiate the terms for the Replacement Agreement. Due to the protracted negotiations between DHS and Care 1st, the Department intends to extend the current Agreement effective January 1, 2008 through December 31, 2008 to allow both parties to fully complete their negotiations and execute the Replacement Agreement, which shall be effective the first day of the month following the date of successful negotiations by both parties through September 2009, with automatic annual renewals for three years through September 2012, upon written agreement by both parties. As with the existing Agreement, the Replacement Agreement will comply with all applicable State laws and regulations.

Attachment A provides additional information.

CONTRACTING PROCESS

It is not appropriate to advertise these Amendments and Agreements on the Los Angeles County Online Website.

IMPACT ON CURRENT SERVICES (OR PROJECTS):

L.A. Care Health Plan – Local Initiative Agreement – Medi-Cal Program

The Agreement with L.A. Care will provide continued funding and provision of health care services to Medi-Cal beneficiaries enrolled in CHP.

New Fee-for-Service Hospital Agreements / Direct Service Agreements for All CHP Product Lines

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These new Agreements will allow CHP to flexibly expand its provider network, thus increasing capacity or access to care to all its members, enhance market share and ability to develop new product lines.

Care 1st Health Plan

Approval of the Amendment will maximize revenue to DHS for Care 1st Medi-Cal and Healthy Families Members who utilize DHS facilities.

CONCLUSION

When approved, DHS requires four signed copies of the Board's action.

Respectfully submitted,



WILLIAM T FUJIOKA
Chief Executive Officer

WTF:SRH
SAS:AT:bjs

Attachments (3)

c County Counsel
Director and Chief Medical Officer, Department of Health Services

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